

**REPORT OF THE AUDIT OF THE
MADISON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MADISON COUNTY SHERIFF

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Madison County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Madison County Sheriff had total receipts of \$1,865,554, which was a \$76,890 decrease from the prior year. Except for reimbursed expenses in the amount of \$740,863, the sheriff paid 25% of receipts to the Madison County Fiscal Court in the amount of \$270,550. This was an increase of \$17,054 from the prior year. In addition, operating fund expenditures increased by \$461,779.

Deposits:

The Sheriff's deposits as of December 31, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,137,099

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable Nelson O'Donnell, Madison County Sheriff
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Madison County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2008. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kent Clark, Madison County Judge/Executive
Honorable Nelson O'Donnell, Madison County Sheriff
Members of the Madison County Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Madison County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 28, 2009

MADISON COUNTY
NELSON O'DONNELL, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

Federal Grants		\$	7,251
State Grants			40,935
State Fees for Services:			
Fianance and Administration	\$	108,310	
Cabinet for Human Resources		4,976	
Sheriff's Security Fees		75,384	
KLEFPF		<u>73,541</u>	262,211
Circuit Court Clerk			19,022
Fiscal Court			92,937
County Clerk			4,608
Commission on Taxes			977,152
Fees Collected for Services:			
Auto Inspections		36,896	
Accident and Police Reports		376	
Serving Papers		225,543	
Carrying Concealed Deadly Weapon Permits		13,440	
Sheriff's Advertising Fees		10,600	
Sheriff's Add-on Fee		<u>133,461</u>	420,316
Other Revenues:			
Interest Earned		20,551	
Miscellaneous		<u>20,571</u>	<u>41,122</u>
Total Revenues			1,865,554

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
 NELSON O'DONNELL, SHERIFF
 STATEMENT OF REVENUES AND EXPENDITURES - REGUALTORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures

Other Expenditures:

Ordinance Fees	\$ 41,530
Jury Meals	203
Refunds	232
Miscellaneous	<u>527</u>

Total Expenditures	\$ 42,492
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Net Revenues	1,823,062
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Payments to State Treasurer:

75% Operating Fund	1,552,512	*
25% County Fund	<u>270,550</u>	<u>1,823,062</u>

Balance Due at Completion of Audit	<u>\$ 0</u>
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* Includes reimbursed expenses of \$740,863. See Note 1 of Notes to Financial Statements.

MADISON COUNTY
NELSON O'DONNELL, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2008

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2007 (Restated)	\$ (48,389)	\$	\$ (48,389)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,552,512		1,552,512
Fees Paid to State - County Funds (25%)		270,550	270,550
Total Funds Available	1,504,123	270,550	1,774,673
<u>Expenditures</u>			
Payments to Madison County Fiscal Court		270,550	270,550
Personnel Services-			
Official's Statutory Maximum	88,120		88,120
Official's Training Incentive	2,609		2,609
Deputies' Salaries	1,113,016		1,113,016
Employee Benefits-			
Employer's Share Social Security	83,207		83,207
Employer's Share Retirement	326,321		326,321
Employer's Paid Health Insurance	75,005		75,005
Other Payroll Disbursements	18,916		18,916
Contracted Services-			
Advertising	886		886
Materials and Supplies-			
Office Supplies	11,266		11,266
Other Charges-			
Law Enforcement Equipment/Uniforms	79,227		79,227
Conference and Dues	2,324		2,324
Internet	1,079		1,079
K-9 Expenses	1,506		1,506
Computer Equipment	6,062		6,062
Computer Expenses	12,130		12,130
Furniture	849		849

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
 NELSON O'DONNELL, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges- (Continued)			
Postage	\$ 5,785	\$	\$ 5,785
Radio Equipment	2,750		2,750
Telephone	4,347		4,347
Photo	799		799
Miscellaneous	1,224		1,224
Auto Expenses-			
Gasoline	100,818		100,818
Maintenance and Repairs	27,739		27,739
Registration	45		45
Capital Outlay-			
Law Enforcement Equipment	9,019		9,019
Vehicle Equipment	21,170		21,170
Vehicle	75,140		75,140
Total Expenditures	<u>2,071,359</u>	<u>270,550</u>	<u>2,341,909</u>
Fund Balance - December 31, 2008	<u>\$ (567,236)</u>	<u>\$ 0</u>	<u>\$ (567,236)</u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

MADISON COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2008
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent for the first six months and 29.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Madison County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Madison County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On December 31, 2008 the Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$1,137,099

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008
(Continued)

Note 4. Forfeited Federal Funds Account

The Madison County Sheriff maintained a Forfeited Federal Funds Account. These funds were used in law-enforcement activities against drugs and were not considered in determining excess fees. As of January 1, 2008, the Sheriff had a balance of \$3,181 in the Forfeited Federal Funds Account. During 2008, the Sheriff received \$12,102 in the Forfeited Funds Account. There was \$9,646 in expenditures, leaving a balance as of December 31, 2008 of \$5,637.

Note 5. Grant Funds Account

The Madison County Sheriff maintained a Grant Funds Account to account for the Operation First Responders Grant from the U.S. Department of Justice. The grant period was October 1, 2006 through September 30, 2010. As of January 1, 2007, the Sheriff had a balance of \$11,288 in the Grant Funds Account. During 2007, the Sheriff received \$11 of interest in the Grant Funds Account. There was \$11,293 in expenditures, leaving a balance as of December 31, 2008 of \$6.

Note 6. Endowment Funds Account

The Madison County Sheriff maintained an Endowment Funds Account for donations. This account consists of donations received by the Madison County Sheriff's Department. The account was opened January 1, 2007. During 2008, the Sheriff received \$0 in the Endowment Funds Account. There was \$250 in expenditures, leaving a balance as of December 31, 2008 of \$0.

Note 7. Grants

- A. The Sheriff's Office received a DUI Standards Grant from the Kentucky Transportation Cabinet Office of Highway Safety in the amount of \$40,000. The grant period was October 1, 2007 through September 30, 2008. Funds totaling \$39,935 were expended during 2008.
- B. The Sheriff's Office received a Click It or Ticket Enforcement Mobilization Grant from the Kentucky Transportation Cabinet Office of Highway Safety \$1,000. Funds totaling \$1,000 were expended during 2008.
- C. The Sheriff's Office received an Impaired Driving Countermeasures Grant from the Kentucky Transportation Cabinet Office of Highway Safety in the amount of \$35,000. The grant period was October 1, 2008 through September 30, 2009. No funds were expended during 2008.
- D. The Sheriff's Office was a sub-recipient of a U.S. Department of Justice Project Safe Neighborhood Grant from Lexington-Fayette Urban County Government in the amount of \$8,216. The grant period was July 1, 2007 through April 30, 2009. Funds totaling \$7,251 were expended during 2008.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008
(Continued)

Note 8. 75% Operating Fund - Deficit Balance

The Madison County Sheriff's 75% operating fund had a deficit balance of \$567,236 as of December 31, 2008. KRS 64.345(4) states, "If seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his/her office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his/her term." The 75% operating fund has to be settled at the end of the Sheriff's term, which ends December 31, 2010.

Note 9. Restatement of 75% Operating Fund Balance

The January 1, 2007, 75% operating fund beginning balance was restated due to \$15,897 of reimbursements that were not accounted for in the prior year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable Nelson O'Donnell, Madison County Sheriff
Members of the Madison County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Madison County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated August 28, 2009. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Madison County Sheriff's financial statements for the year ended December 31, 2008, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Madison County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

August 28, 2009

